

# **A Radical Critique of the Liberal Economic Program**

**Review: Paul Krugman, End This Depression NOW!**

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June 06, 2012

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*“Just as the economists are the scientific representatives of the bourgeois class, so the socialists and communists are the theoreticians of the proletarian class.” --Karl Marx (1847/1935; p.106)*

Paul Krugman is one of the most popular writers on economics in the U.S. He has the credentials of being a professor of economics at Princeton University and of having received the 2008 “Nobel Prize in Economics.” He has the national platform of a twice weekly column on the “op-ed” page of the New York Times. He has written a series of popular books as well as a textbook and maintains a blog. The book under review displays his felicity with language, his wit and humor, and a clarity which is remarkable for anyone writing on economics, left, right, or center. Despite disagreements, I enjoy reading his Monday and Friday New York Times columns. I count myself a “fan.” And yet, despite his important insights, I believe that his liberal viewpoint is deeply flawed. My viewpoint is that of an anarchist who believes that Marx’s economic theory is the most useful for understanding how the capitalist economy works.

## **The World is in a Depression**

To summarize the message of this book: The U.S., indeed the world, is in a “depression.” Krugman is not referring to a deep economic collapse, which he does not expect, but to a long period of stagnation, slow growth at best, with high unemployment. During this depression, there will be ups and downs. The downs will be “recessions,” such as the Great Recession of 2007-9. The ups will be tepid and painfully slow. Overall, this long slump is causing, and will continue to cause, a great deal of suffering, in joblessness, underemployment, and loss of homes, cutbacks in social services, growing inequality, and a general ugliness in social and political culture.

But Professor Krugman believes that there are no deep, underlying causes to this slump (which is what makes him a liberal). It could be easily corrected with a “trivial” change in public policy! The government should follow the lessons of John Maynard Keynes—the great liberal economist—and find ways to stimulate the economy through increased public spending. Following Keynes, Krugman argues that the problem is the loss of aggregate demand in the private sector (consumers are no longer able to buy commodities). Therefore the state must step in and create public sector demand. Then prosperity will return.

Krugman does not deny that there is a problem caused by the government and private sector having large debts. There was “an extraordinary rise in debts, beginning roughly in 1980....We do have a problem of excess debts...” (pp. 50-51). He refers to “the overhang of private debt that is arguably at the root of our slump” (p. 39). But he cites the Keynesian dictum that it is foolish to treat a deficit (by cuts in public spending) during a slump. Doing so is only making the depression worse--and, by weakening the economy, actually increases public and private debt. Once prosperity returns, that will (supposedly) be the time to cut back government spending and decrease the public debt.

Unfortunately, Krugman complains, people who should know better—politicians and even leading economists—have forgotten the ABCs of Keynesian economics. They advocate ever more disastrous policies. At the time when Obama proposed his economic stimulus program, Krugman criticized it as too small and too limited, even if barely better than nothing. “I personally was more or less tearing my hair out in public as the shape of the administration’s plan began to come clear”

(p. 118). Krugman's criticisms (and those of other liberal economists) appeared to have been correct: the stimulus may have prevented further (immediate) decline, but did not restore anything like prosperity. "It was a recipe for grief" (p. 122). Since then, as Krugman points out, Obama has publicly bought into the need to fight the deficit rather than focusing on unemployment. Krugman's columns continually castigate the Democrats for their weak and inadequate program and their capitulation to the Republicans.

But he saves his greatest attacks for the right-wingers, the so-called "conservatives" (really reactionaries) in the U.S. and Europe. (I will not go over his discussion of the European crisis, which he regards as partly due to creating a common currency before there was an integrated political and financial system in place. But he sees the basic error as European governments demanding cutbacks—"austerity"—during the slump, instead of an economic stimulus—as is similarly happening in the U.S.) Of the rightists, economists and politicians alike, he denounces their "sheer ignorance." He summarizes, "Those who were right lacked all conviction, while those who were wrong were filled with passionate intensity" (p. 111). (Historically this has been a common pattern in conflicts between liberals and reactionaries!)

Of course, when conservatives vehemently object to government spending on social services for poor and working people because of the overwhelming need to cut government debt—but then demand ever greater tax cuts for the wealthy and ever more funds for military spending—it should be clear that they are hypocrites. Some of them (the economists maybe) might be sincere, but the politicians—and their masters, the businesspeople who pay them—are after something else than deficit-reduction. Even the depression is, for them, mostly an opportunity to push their agenda. Sometimes they say that what they are really after is cutting back "government," but this is also hypocritical. They are positively for larger military and police, more border guards, greater government intrusion into women's reproductive lives, etc. No, what they are after is increased wealth for the very rich by attacking the working class (my conclusion, not Krugman's).

## **Krugman's Liberal Economic Program**

Since Obama's nomination, there have been liberals calling for expanded public spending programs, for a "new New Deal." What does Krugman advocate? First, he wants the federal government to provide enough money for state and local governments to reverse their recent firings of public employees. Krugman estimates that a rehiring of teachers, school secretaries, firefighters, etc. would directly create over a million jobs and perhaps indirectly around three million. This could be done immediately. Then he proposes "investments in roads, rail upgrades, water systems,...infrastructure,...delayed or cancelled projects, deferred maintenance, and the like" (p. 215). Further, he suggests "a temporary increase in the generosity of unemployment insurance and other safety net programs" (p. 216), on the grounds that "people in distress" are most likely to spend money as quickly as they can.

Next he urges activity on the Fed (the Federal Reserve, the U.S. central bank). Krugman criticizes the Fed's "timid[ity]" and "passivity," putting this down to its members being "intimidated by political pressure" from the right and to "the pressures of groupthink" (p. 218). He makes several suggestions, which include a commitment by the Fed to "modestly higher inflation, say, 4 percent over the next five years" (p. 219) or even over 10 years (higher than the current 2 percent, but not too high). For Krugman, one advantage of inflation is that it provides a convenient way

to cut down the workers' incomes, without all that messy conflict which might follow a direct attack on wages. "Countries can and do get large declines in their relative wages more or less overnight, and with very little disruption, by means of currency devaluation" (p. 170). As a liberal, Krugman is sympathetic to "people in distress" but not really on the side of the workers.

Also, Krugman proposes to deal with the major problem of the debt which homeowners had built up in the time of the housing bubble. As usual, even the Obama administration's best programs for homeowner relief have been "far too cautious and restrictive" (p. 220). A mass refinancing program can be worked out. Krugman says that additional policies would help break the slump, such as "environmental regulation" or getting "tougher" on the Chinese state for its manipulation of currency.

To me, it is unclear how much more Krugman thinks would be needed, since he writes, "reversing state and local austerity wouldn't eliminate the need for additional fiscal stimulus" (p. 221). Does this mean that all these proposals would, after all, not be enough money to jumpstart a recovery? Just how much would be needed?

## **Will The Liberal Program Work?**

Unfortunately, when looking for evidence that the Keynesian stimulus program would work, Krugman can only cite instances of military spending. The U.S. New Deal did not end the Great Depression; about 1 in 5 workers was unemployed in 1939, ten years after it began. It ended due to military spending leading up to the Second World War, followed by the war itself, and the same was true for other countries such as Britain and Germany. The next big boost to the economy was the Korean War. "Big spending programs rarely happen except in response to war or the threat of war" (236-7).

Krugman does not discuss the way the apparent prosperity after World War II was based on continued armament spending—what President Eisenhower was to call the "military-industrial complex," what some Marxists called the "Permanent Arms Economy," and what others called "military Keynesianism" (or, as Representative Barney Frank put it, "weaponized Keynesianism"). Nor does he consider how, even now, the downturn is cushioned by massive military spending.

Liberals ask, why cannot the same amount of big government money be spent on the production of useful goods and services? Why not spend it on education, healthcare, housing, mass transit, basic food, improving the environment, finding alternate energy sources, and so on? It hasn't been, but why not?

The answer is: class politics. The capitalist class does not want to be taxed to spend money on the working class. Such a program would unsettle the balance of class power. It would make the workers more independent of the corporate rich. It would tend to produce public goods which would compete with privately-produced commodities. It would lead to people asking, If the public sector can provide so many goods and services, then who needs the capitalist class and their market economy?

Arms spending, on the other hand, is a subsidy to big business. It does not compete with privately-produced commodities (especially the nuclear missiles). It strengthens the empire and encourages superpatriotism. To replace big military spending with big government spending on goods and services useful for the working population is just not going to happen. The moderates and liberals will weakly vacillate while the conservatives will froth at the mouth against it.

## The Deep Crisis

The basic problem with Krugman's analysis is that he sees the downturn as just a conjunctural crisis, the result of almost accidental short-term difficulties, which can be dealt with by "trivial" policy corrections. He does not see, or at least does not discuss, the long term decline of world capitalism which became apparent at the end of the 1960s. This was when Keynesianism lost popularity, as the capitalists decided to end their deals with the unions and to cut back on social services. For at least four decades, the world economy has been going downhill, with increasing stagnation, overproduction, underutilization of resources, high unemployment and underemployment, lop-sided development at best in the poorer nations, expanding poverty in the wealthiest nations, and a series of economic crises, culminating (so far) in the Great Recession and the current depression. If we regard the post-World War II "boom" as the aberrant result of the world war, then we have returned to the conditions, beginning in 1914, of the "epoch of capitalist decline," of "monopoly-financial capitalism" and of continuing imperialist wars.

The root problem is not a lack of "aggregate demand" (the Keynesian view) but a decrease in the rate of production of sufficient profits (surplus value, in Marxist terms). Were there enough profits, then the capitalists would hire more workers who could buy more goods, while the capitalists would buy more luxury goods and their firms would buy more means of production. In short, increased profitability increases the aggregate demand and decreased profits decrease the aggregate demand. This can only be properly analyzed in the Marxist terms of the labor theory of value and of the tendency of the rate of profit to fall.

The capitalist system has tried to resist the decline of its "real economy" (which produces actual goods and services) by an expansion of the financial ("virtual" or "paper") economy (including armament expenditures which did not produce salable commodities). This made it seem like profits were going up, while actually they were mostly what Marx called "fictitious capital," a mountain of debt, a mainly bubble economy. An expansion of government spending, which Krugman wants, would undoubtedly decrease social misery. It might get the wheels turning again, for a while, at the expense of ever greater public and private debt. This would only prepare the way for greater catastrophes further down the road. This is a social system which cannot be reformed but must be removed.

Socialists of various sorts have long advocated public works programs and public spending to provide jobs and services. Such proposals can be found in the 1848 Communist Manifesto--and were not original with it. Revolutionary anarchists demand that public works projects be under the democratic control of the workers employed there and of local working class communities.

Revolutionary socialists (including anarchists) advocate public works programs for some reasons similar to Krugman and other liberals, namely to decrease suffering. Revolutionary socialists also advocate them for reasons very different from Krugman, who wants to get the capitalist economy working again. Instead, public works would be combined with a program of expropriation of ineffective private businesses (taking them over without compensation and turning them over to workers' and community self-management). Public programs and expropriated enterprises would coordinate themselves from below, as the beginning of a democratically planned nonprofit economy. Contrary to the liberal program, this would offer, in the words of the Manifesto, "means of despotic inroads on the rights of property and on the conditions of bourgeois production" (Marx & Engels, 1848/1955; p. 31).

This book is well worth reading to get a clear and informative exposition of the liberal economic analysis. But I suggest further reading of various Marxist writers on the political economy of the world crisis: e.g., Daum & Richardson (2010), Foster & Magdoff (2009), Kliman (2012), Mattick (2011). (The ideas in this essay will also be covered to a much greater degree in my book, *Marx's Economics for Anarchists; An Anarchist's Introduction to Marx's Critique of Political Economy*, which AK Press will be publishing in the fall. It is a much revised and expanded version of material which previously appeared on Anarkismo.)

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